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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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~~SECRET~~**CONFIDENTIAL****CURRENT INTELLIGENCE WEEKLY SUMMARY****19 February 1959****PART I****OF IMMEDIATE INTEREST****THE GERMAN QUESTION**

In his speech at Tula on 17 February, Khrushchev adopted a defiant attitude toward the Western powers' determination, reaffirmed in their notes of 16 February, to uphold by all appropriate means their communications with Berlin. This continues the Soviet efforts to confront the Western powers with an apparent choice between measures to enforce their right of access to Berlin--which might involve a risk of war--or concessions to Soviet demand.

Khrushchev said Soviet troops in East Germany are not there to play games and repeated previous public Soviet warnings that "if anybody should start shooting, this would mean the beginning of war."

The Soviet premier in his Tula speech also sought to discourage any belief that Western access to Berlin could be maintained by an airlift if the land routes are closed. He asserted that East Germany would obtain full sovereignty by the conclusion of a peace treaty--either with both German states or a separate treaty with East Germany--and would vigorously rebuff any encroachment on its territory by land, air, or water.

Khrushchev's stress on East German sovereign rights guaranteed by international law after a peace treaty is signed

seems to imply either that the East Germans would refrain from attempting to exercise controls over Allied access which had been relinquished by the USSR until after a peace treaty is signed or that Moscow plans to conclude a separate peace treaty prior to or simultaneously with transfer of controls to the East Germans.

Khrushchev's tough line on negotiations with the West suggests that the USSR will promptly carry out its announced intention to transfer controls and sign a separate treaty if the West rejects the Soviet proposals on Berlin and a treaty signed by both German governments. There may be a transition period following a transfer of controls during which East German authority would be exercised in such a way as to avoid a forceful Western reaction and to gain more time to maneuver the West toward de facto recognition of the East German regime. Khrushchev ridiculed the Western formula of "no concessions without counterconcessions" and said, "We...have nothing to concede. We made our proposals without bargaining."

Moscow's apparent belief that its threatening posture on Berlin will generate growing popular pressures on Western governments to move toward at least de facto recognition of East Germany was reflected in Khrushchev's favorable reference

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in his Tula speech to Senator Mansfield's proposal for direct negotiations between the two German governments on unification of both Berlin and Germany. He said such proposals "merit attention" and declared "it would be possible to reach agreement with people who take such sober positions."

East German Views

Anticipating the Western notes of 16 February, a Neues Deutschland editorial on 15 February insisted that both German states must not only sign a peace treaty but also participate in the negotiations. "We don't want a finished product," said the editorial, "in ultimative form, as was the case with the Versailles Treaty, presented for our signature." Nor does East Germany want to participate merely as "archivists and consultants," but as a "delegation of a sovereign German state representing the cause of the nation."

In a further effort to enhance its claim to international recognition, the East German regime, following the turnover of access controls, may seek on the technical level a civil air agreement with West Germany. Ambassador Bruce believes this is especially likely if the Western carriers presently operating to Berlin cease to fly because of Soviet refusal to guarantee flight safety. Such a development would result in pressures on the Western governments to seek an accommodation with East Germany permit-

ting their airlines to continue service. The East German regime would probably feel that any financial loss it might suffer thereby would be more than compensated for by a gain in its international stature.

Macmillan Visit

The Soviet leaders apparently believe that British views on Berlin and Germany and the likelihood of British elections this year can be exploited to weaken Western unity. [REDACTED] 25X1

[REDACTED] the USSR considers Britain the "weakest link" in the Western front and may attempt to drive a "hard bargain" during Macmillan's visit.

Moscow probably feels that the prime minister's desire for a "peacemaker" role, together with the pressure of British public opinion for a relaxation of tension, makes him particularly vulnerable on the German issue. [REDACTED] 25X1 25X1

[REDACTED] TASS [REDACTED] 25X1 noted that Macmillan gave a "very evasive" reply to a question about Britain's stand on this issue.

West German Views

West German Foreign Ministry officials are considering

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a counterproposal to Moscow offering to establish a United Nations commission to supervise the exercise of human rights and freedom of political activity in both East and West Germany. They feel such a commission, if active for a "number of years," could pave the way for a German federation. Bonn would also consider legalizing the Communist party, outlawed since 1956. German officials claim that the plan has "official" but not "governmental" approval.

Bonn Foreign Ministry officials have also indicated that a German federation, with wide powers given to the individual states in the economic and social fields, would be worth "examining." Such "informal" ideas are apparently a part of a continuing effort by some German diplomats to probe Western reactions to new approaches to unification.

Bonn has strongly supported the participation of both East and West German representatives in the proposed foreign ministers' conference despite criticism in NATO that the West may be confronted with a high-ranking East German delegation.

Bonn intends to claim the right to address the meeting, although sitting in the "second row." Adenauer may feel that in view of constant reports of new Western approaches to the German question, such as Senator Mansfield's proposals, Bonn can no longer afford to be excluded from any high-level discussions. By participating as a member of the Western team, Bonn hopes to establish a claim to equality with the United States, Britain, and France in any talks on Germany, European security, or disarmament.

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**SOVIET REACTION TO BREAKOFF OF NEGOTIATIONS WITH IRAN**

Moscow acted quickly to gain the propaganda initiative following the breakdown of talks in Tehran on 10 February by releasing on the next day the text of the 14-page memorandum the Soviet negotiators handed to the Iranian foreign minister before their departure. The memorandum's step-by-step account of the talks apparently was designed to prepare the ground for retaliatory pressure on Iran. This pressure probably will be intensified during the final stage in Iran's negotiations on a bilateral de-

fense agreement with the United States, which may be signed before 21 March.

In his speech on 17 February Khrushchev made a more explicit attack on the Shah than in his statements last November; while he asserted that the Shah could not "save his throne" by a pact with the United States, his statement that "We shall see to it that the people of Iran understand our attitude correctly" apparently presages intensified attacks on the Shah's regime.

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The Soviet premier also repeats charges that the Shah's decision to conclude a bilateral defense agreement with the United States will "entail the turning of Iran into an American military base."

A Pravda article on 14 February contended that the Soviet Union did "everything possible" to meet Iran's wishes, and charged Tehran with following a "double-dealing, perfidious" policy designed to deceive the Iranian public. Soviet warnings have stressed that a "turning point" has been reached in USSR-Iranian relations, and that the Soviet Union "cannot overlook such hostile action" by Iran as the signing of a bilateral defense pact with the United States.

Articles on 17 February in the Soviet military newspapers Red Star and Soviet Fleet attacked a US-Iranian bilateral defense agreement, charging that Iran's armed forces are losing their independence and that American bases are being set up in Iran "for attacking the Soviet Union." The Soviet press and radio, as well as Moscow's 10 February memorandum, charge that the Shah's regime does not represent the Iranian people, and Soviet media attempt to portray important segments in the country as opposed to the Tehran government.

Moscow claims that "several prominent Iranian generals" have

spoken in favor of removing all foreign advisers and have declared that if American troops enter Iran, the Iranian Army "will disband as a mark of protest." Pravda warns that Tehran's policies will bring the rulers of Iran to an inevitable downfall--either through flight, as in the "Cuban fashion," or through destruction, as in the "Baghdad style."

The Soviet leaders see such propaganda, if not effective in dissuading Iran from signing a bilateral agreement, as preparing a public rationale for Soviet counteraction when the bilateral agreement is signed. As yet, however, Moscow has undertaken no move other than propaganda against the Tehran regime.

The Iranian Government, placing full responsibility for collapse of the negotiations on the USSR, is trying to counter Soviet charges through a vigorous diplomatic and propaganda effort. At a session of the Iranian Senate on 14 February, Foreign Minister Hekmat expressed the government's determination not to be intimidated. He also has threatened to suppress TASS bulletins issued in Iran. Radio Tehran has warned that Iran will publish a "bulky catalog" of Soviet misdeeds if Moscow does not cease its broadcast attacks.

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**IRAQ AND OTHER MIDDLE EAST DEVELOPMENTS**Iraq

The political situation in Iraq has been relatively quiet for the past week, and the threat

by the newly appointed cabinet members who adhere to the National Democratic party (NDP) to resign has not been carried out. Propaganda Minister Jamil, whose

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irritation with Qasim over the cancellation of an order to suspend a Communist paper was the source from which the resignation actions might have sprung, departed from Baghdad for New Delhi, ostensibly to put in order affairs he had left there when he was Iraqi ambassador to India.

ments. Landowners are still resisting the agrarian reform law; a slowdown in agriculture is affecting a large part of the economy. The scheme for a "national union" to replace the old political parties has bogged down in the face of unanimous opposition from the party organizations which, although legally abolished, continue to subsist.

Although none of these disparate elements yet show signs of linking up, their disgruntlement is a standing threat to Nasir's prestige. Adding to UAR concerns is a possible renewal of activity by a Communist party with funds and personnel from Iraq.

There are rumors that Khalid Bakdash, the Syrian Communist leader who spoke for the Arab Communists at the 21st party congress in Moscow last month, has returned to Baghdad, a move which would strengthen the local Communist movement and would alarm the UAR authorities, who are continuing to harass local Communists in Egypt and Syria.

UAR

Nasir probably is still concerned over the situation in Syria. He is scheduled to visit Damascus about 22 February, accompanied by Yugoslav President Tito, immediately after an "important" political speech in Cairo.

There remain pockets of political resistance in Syria to the UAR concept and to Egyptian domination of it. There are a number of Syrian Army officers who, retired, transferred, or in effect demoted by Cairo's orders, form a potential core of dissidence. Former chief of staff Bizri, whose whereabouts is unknown but who may be in Iraq, has been attempting to exploit these ele-

UAR propaganda organs, possibly seeking to distract attention from the UAR's failure in Iraq and the grumbling in Syria, are now concentrating on the increased flow of Israeli immigrants coming from Eastern Europe, especially Rumania. One press line is that the movement of these people is the result of an arrangement made by Soviet Deputy Premier Mikoyan with the United States, and that it fore-shadows another effort by the great powers to divide the Middle East into spheres of influence.

The press campaign thus serves the UAR as another device for indirectly criticizing Soviet bloc policy in the area while maintaining a "neutral" position by including the United States in the attack. An Arab League council meeting on 2 March is scheduled to discuss the problem formally.

Libya

An intensification of anti-American propaganda and sentiment has been reported from Libya as the American and Libyan governments begin another round of negotiations over the level and

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nature of American economic assistance. Libyan newspapers have seized on local incidents involving activities of Wheelus Air Base to denounce the American "occupation" and the action of former Premier Ben Halim in "enslaving" the country by signing the 1954 Libyan-American agreement. They are abetted by Cairo radio's repeated attacks on the existence of Western bases in the area.

Although the government itself may be generating part of the campaign as a bargaining

tactic, there apparently is genuine popular pressure over the issue of neutralism generally and the air base specifically. Even Libyan provincial officials now are pressing their own claims to consideration in the negotiations. The activities of all these forces tend to create an atmosphere favorable for more neutralist gestures, such as the acceptance of the two proposed Soviet hospitals and the perennial proposal, revived again last week by an opposition member of Parliament, that Libya recognize Communist China.

**CYPRUS**

Final settlement of the Cyprus issue was reached at the London Conference of Britain, Greece, Turkey, and Greek and Turkish Cypriot leaders on 19 February. A last-minute breach which had developed between Archbishop Makarios and the Greek Government was resolved, and Makarios agreed to the terms of settlement previously accepted by all other parties to the dispute.

The possibility of a final settlement based on the Zurich agreement reached between Greece and Turkey on 11 February had been received favorably by a majority of the people on Cyprus and in the three countries directly concerned. In Britain, only a few far-right conservatives opposed a settlement, denouncing the government for following "a policy of surrender."

In Greece, the government was aided by the initially fa-

vorable reaction to the Zurich agreement by Makarios and other leading Greek Cypriots. Spokesmen for both the nationalist and Communist opposition, however, have denounced Premier Karamanlis for acquiescing in a plan which permanently precludes "enosis" and officially recognizes Turkish interests on the island.

The Turkish public is largely apathetic. Its satisfaction at Ankara's having prevented union of Cyprus with Greece is tempered by realization that the Turkish demand for partition has also been abandoned.

The Zurich agreement, according to a Turkish official, calls for an independent Cypriot republic with a Greek Cypriot president and a Turkish Cypriot vice president--both men with veto power over foreign affairs and certain communal matters. A 12-member cabinet including the president and vice president,

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will be composed of eight Greek and four Turkish Cypriots. There will be a combined legislative assembly, 70 percent of whose members will be Greek and 30 percent Turkish, and separate subsidiary communal assemblies.

The constabulary is to consist of approximately 60 percent Greek Cypriots and 40 percent Turkish Cypriots. Greece and Turkey will create a combined military force of around 1,500 on the island, with approximately two thirds of the troops from Greece. In the event of a violation of the Cyprus constitution, Britain, Greece, and Turkey will have the right to intervene "jointly or separately."

Cypriot Communists--well organized, with capable lead-

ers, and controlling the largest labor union on Cyprus--have not yet indicated the course they will follow in the new republic. While leftist spokesmen have announced that they now support Makarios, the fact that Radio Moscow and left-wing leaders in Greece have denounced the plan for permitting the British to retain military bases on the island may indicate their future course of action.

Some Greek Cypriots, fearing that the Communists will try to gain control of the new government and to expand their activities in all phases of the island's activities, have voiced the hope that EOKA can be used in the future to maintain control by the anti-Communist elements.

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## PART II

NOTES AND COMMENTS

## CAMBODIA

The split between Cambodian Premier Sihanouk and General Dap Chhuon, military commander in northwestern Cambodia, has come increasingly into the open. Sihanouk, who recently returned from a week's visit in Indonesia, apparently now is aware that Chhuon has been plotting a move against him. He is probably uncertain of the extent of Chhuon's support among the 28,000-man Cambodian military establishment --beyond the three battalions Chhuon controls in Siem Reap and Kompong Thom provinces and elements in the palace guard-- and seems anxious to avoid a direct showdown at present.

Defenses in the Phnom Penh area have been strengthened, while Sihanouk is attempting to undercut Chhuon's position by such devices as recalling army equipment from his military region, ostensibly for routine exchange. A key question is the attitude of General Lon Nol, opportunistic chief of staff of the Cambodian armed forces and concurrently defense minister in Sihanouk's reshuffled cabinet. The cabinet changes announced on 18 February apparently are part of Sihanouk's spreading witch hunt against officials suspected either of collusion with antigovernment elements or of being too inept

to cope with the "present delicate situation."

The premier may be planning a full-blown exposé of the Dap Chhuon plot, implicating the United States as well. In an interview in Indonesia on 14 February, Sihanouk specifically accused Vietnam's representative, Ngo Trong Hieu, of being "the head of foreign subversion in Cambodia." He also said, "It is not the Communists who are attacking us but SEATO dollars and weapons." Sihanouk extolled Peiping's friendship toward Cambodia and labeled fears of Chinese Communist subversion "sheer nonsense." He claimed there was not a single Chinese agent in Cambodia.

Peiping, satisfied with its growing prestige in Cambodia since Phnom Penh's recognition last summer, now looks forward to increasing its influence. Peiping is continuing its efforts to convince Sihanouk that closer ties with Communist China will improve the stability of his regime but will not expose him to Chinese domination. Such an emphasis would also serve to promote Peiping's effort to "prove" to other countries of Southeast Asia that neutrality is profitable and entails no risks.

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## TUNISIA'S RELATIONS WITH FRANCE

Tunisia's relations with France are again deteriorating sharply as the attitude of the government hardens. Indignant because the De Gaulle government failed to make some concession to alleviate Tunisia's financial difficulties--caused

in part by the devaluation of the French franc in December--the Tunisian Government now seems to be tacitly encouraging anti-French feeling stimulated by two recent border violations and the discovery of a French espionage network.

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This feeling probably will mount, and carefully controlled anti-French demonstrations may be permitted.

Although border incidents, including fatalities, are not uncommon, they usually are soft-pedaled by the Tunisian Government. The controlled press, however, has extensively reported the shelling by French Army units in Algeria of a Tunisian village west of Kasserine on 8 February--pointing out that it occurred just one year after the French air strike against Sakiet Sidi Youssef--and the strafing on 14 February by Algeria-based French fighter planes of a Tunisian locust control team farther south, near Nefta.

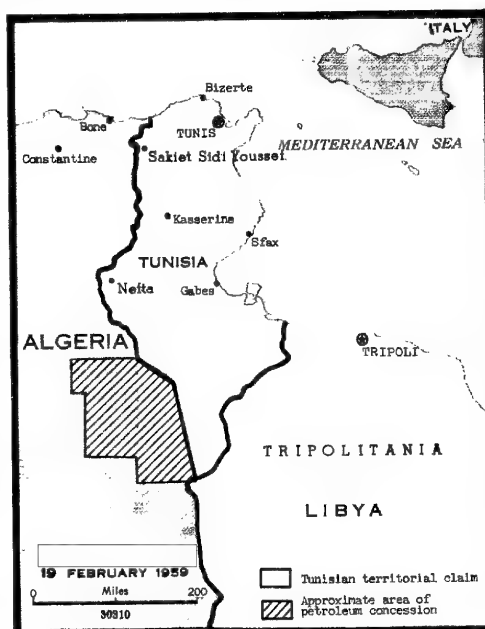
Many Tunisians will consider the second border incident a harsh response to President Bourguiba's unusually conciliatory statements toward France in his weekly radio talk shortly before. The talk concerned the discovery of an extensive French espionage network operating out of the French Embassy in Tunis. At about the same time Bourguiba offered during an interview to meet De Gaulle to discuss mutual problems, including an Algerian settlement.

The incident provided Bourguiba with a new opportunity to pose as champion of Algerian independence. He told press correspondents on 17 February that unless peace were realized in Algeria by 17 June--the first anniversary of the agreement to withdraw all French military forces from Tunisia except those at Bizerte and to provide for the negotiation of a provisional agreement regarding the base--Tunisia may not permit France to retain the base at Bizerte.

Paris is taking a tough line because Tunisia has re-

fused to permit the French consul in Tunis to see two Algerian employees of the embassy held on espionage charges. Bourguiba's recent claims to a part of a French petroleum concession area in the Sahara and his announced intention to buy all foreign-owned farm lands have also irritated the French Government, which now is not prepared to meet any of Bourguiba's demands.

Nevertheless, Bourguiba probably will insist that the staff of the French Embassy in Tunis, which numbers 650 persons, be reduced and may also demand that some of the 20,000 French Army, Navy and Air personnel at Bizerte be withdrawn. The Tunisians probably will simultaneously seek new arms, in addition to the American,



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British, and Yugoslav arms they have already received and the Turkish weapons which will arrive next month, so that the Tunisian Army may be rapidly increased from 6,000 to 20,000 men.

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**NUCLEAR TEST TALKS**

The Soviet delegation to the Geneva conference on the suspension of nuclear tests has endeavored this week to improve its negotiating record in the event the talks break down. On 17 February the Soviet delegation accused the West of not wanting an agreement and warned that negotiations may collapse if the United States and Great Britain do not change their positions. The chief Soviet delegate claimed that Anglo-American rejection of a Soviet proposal for staffing of control posts proves that the United States and Britain are interested only in sending the maximum number of "foreign agents" into the USSR for espionage purposes, not in ending nuclear weapons tests.

On 18 February the Soviet delegate underlined this warning, charging that US and British tactics of insisting that discussion be limited to topics they specify has created an "almost hopeless situation." He said this means the West wants to maintain the conference "in a state of impasse." There have been no indications, however, that the USSR will take the initiative in ending the negotiations.

The Soviet delegation's publication on 7 February of its statement on the talks has been directed toward blurring key issues on which its position is comparatively weak, while at the same time maintaining the appearance of being willing to negotiate all issues. In an effort to show that the USSR holds the initiative in the talks, the Soviet delegate last week pressed for detailed Western views on the four key issues of voting procedure in the control commission, duration of a treaty, staffing of

control posts, and composition of the control commission. On the last issue, Moscow formally proposed that the control commission be composed of three Western and three bloc members and one neutral.

Discussion centered primarily on the issue of control post staffing. The Soviet delegates, claiming that the Anglo-American proposals for international staffing would not guarantee against either suppression or fabrication of evidence, maintained that the post should be staffed by nationals of the host country supplemented by "controllers" from the "other side." The Soviet team charged that the Western plan fails to ensure "mutual control" or guarantee to the host country that its national security would not be prejudiced by improper activities on the part of control personnel--activities which would "create tension and promote the cold war."

On 11 February the Soviet delegate implied that any further negotiations on the key question of voting procedures in the control commission must await presentation of the "Western attitude." He intended thereby to create the impression that the Soviet delegation is ready and willing to discuss this issue, but is being frustrated by continued Western refusal to introduce a specific counterproposal to the Soviet draft article listing subjects requiring unanimity among the three nuclear powers.

During the forthcoming visit of Prime Minister Macmillan to Moscow, the Soviet leaders will probably probe for possible

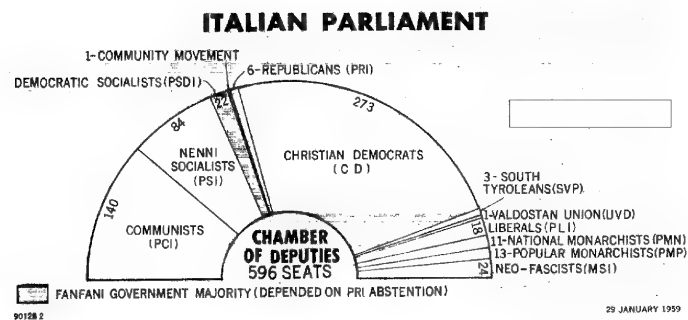
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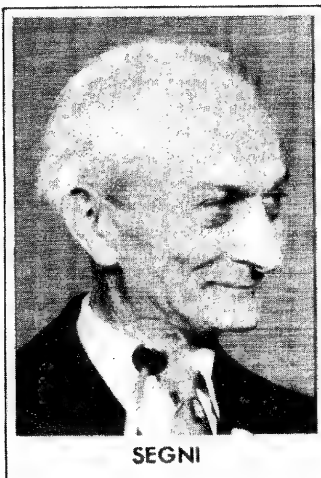
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and Industry are held by left-of-center Christian Democrats--Rinaldo Del Bo and Emilio Colombo, respectively; and the Budget and Treasury Ministries, both held by Fernando Tambroni, were kept out of the hands of conservative former Budget Minister Pella.

Instead, Pella was given the Foreign Ministry, where he may endeavor to improve relations with Eastern Europe in order to promote greater bloc trade; he may also encourage expansion of Italian economic relations with the Near East.

The new government, nevertheless, will probably continue Italy's pro-NATO policies.

Such a compromise cabinet can be expected to accomplish little in the way of positive legislation. It will not carry out the reform legislation called for in Fanfani's program. Segni's announced intention to work out "an economic plan" to solve the problem which led to recent serious strikes in Florence, Naples, and the Rome area appears little more than wishful thinking.

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**POLITICAL SITUATION IN CEYLON**

Recent developments within Ceylon's Parliament and Prime Minister Bandaranaike's Sri Lanka Freedom party (SLFP) have defined the rivalry between leftist and relatively moderate elements in the country more sharply than at any time since Bandaranaike's coalition government took office in April 1956. The strong stand which the SLFP's relatively moderate wing is taking for the first time against the party's leftist elements could eventually create a rift in the SLFP and the ruling coalition impossible for Bandaranaike to bridge. Such a development would isolate and further weaken Bandaranaike and would provide the basis for new party realignments.

At the SLFP's recent executive committee meeting, the party's moderate elements overruled the prime minister and unanimously elected a strong anti-Communist as party general secretary to succeed the leftist incumbent. They also emphatically rejected a proposal that the government coalition

ally itself with the Communist and Trotskyite Lanka Sama Samaj (LSSP) parties to defeat the United National party (UNP), formerly the ruling party, in the Colombo municipal elections tentatively scheduled for next November. This conflict has also been reflected in the cabinet, with the renewal of strong opposition by SLFP cabinet members to the far-leftist minister of agriculture.

The campaign of the relatively conservative UNP since September to revive its organization and regain its former popularity apparently has met with some success, and this could hasten a polarization of the island's political groups. Both the LSSP and the Communist party have admitted that the UNP would benefit most from elections at this time. If the UNP's fortunes continue to rise, the party could provide the rallying point for moderate government members who judge their political positions jeopardized by the weakness and factionalism in the Bandaranaike government.

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A more immediate and critical effect of the UNP's resurgence and the LSSP's recent defeat at the hands of the SLFP moderates in Parliament over a bill to facilitate the government's use of its emergency powers could be direct counteraction by the LSSP.

The LSSP may feel forced to recover the prestige it lost over this issue by staging its long-threatened general strike or by cooperating with other antigovernment leftist elements. Such a strike could stimulate countermeasures by nonleftist groups and lead to widespread unrest.

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**BURMA**

The Burmese Parliament seems about to amend the Constitution to permit General Ne Win to stay on indefinitely as prime minister. As now written, the Constitution forbids nonmembers of Parliament, like Ne Win, to stay in office for more than six months at a time. Ne Win's six-month term was not due to expire until April. He tendered his resignation to Parliament on 13 February, however, stating it would be impossible to prepare the country for elections by April as he had hoped and inviting Parliament to devise alternative arrangements.

He announced he could not be induced to return as prime minister unless the constitutional restrictions on the length of his tenure were lifted. Ne Win's statement conveyed the unmistakable impression that whatever Parliament's formal arrangements for a successor government, the army intended to retain a substantial voice in the national policy sphere.

Former Prime Minister U Nu's "clean" faction of the Anti-Fascist People's Freedom League (AFPFL) had opposed until the last minute an extension of Ne Win's term beyond the April deadline. During the week-end recess of Parliament, however, the faction reluctantly agreed to go along with Ne Win's request, probably thus eliminating opposition to the

proposed amendment except from the predominantly Communist National United Front and perhaps a sprinkling of non-Communist mavericks. Nu has declared that his party hereafter will use Gandhian passive resistance to oppose army "oppression."

However bitter the pill was to swallow, Nu and his followers in reality had little choice but to bow to Ne Win. Even if Parliament had decided on holding the April elections Nu has been urging, there was every likelihood that such elections would have been managed by his archrivals, Ba Swe and Kyaw Nyein, whose "stable" faction of the AFPFL probably now has a majority in the Chamber of Deputies. Even more serious was the ever-present threat that the army might drop all concern for constitutionality and seize complete power by a coup.

With a constitutional amendment, the way would be cleared for Ne Win and the army to step up their program to reform Burma's political and economic life unhindered by the necessity to return periodically to Parliament for a renewal of a mandate. Perhaps the greatest danger now facing Ne Win is the possibility that he may eventually be supplanted by a small clique of ambitious, politically motivated "young colonels," who under the cover of the army's reformist program may arrogate to themselves such political and economic power as to make Ne Win their puppet. In such event, Ne Win could be expected to resign.

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**LAOS**

Hanoi and Peiping have been strongly critical of the Laotian Government's renunciation on 11 February of the restrictive 1954 Geneva accords. In response to these pressures, Vientiane on 18 February attempted to clarify its action by explaining that its earlier statement had merely recorded the facts: Laotian commitments under the Geneva accords had been completed. There was no intention, it insisted, of changing Laotian policies but, similarly, there was no further basis for applying the accords to the country.

It appears unlikely, however, that this explanation will quiet foreign criticisms. Communist sources assert that the accords are binding on the entire Indochina area until they all have been fulfilled and there has been a political settlement in Vietnam.

Internally, Premier Phoui is faced simultaneously with growing discontent among the

conservative elements of his government. He fears that the members of the conservative Rally of the Lao People (RLP) will soon serve him with an ultimatum to supply the executive and ambassadorial posts he promised in return for their support in the National Assembly or to resign from the party. He is unable to fulfill these promises because the younger reformist elements in the army and in the Committee for the Defense of National Independence are refusing, in their positions as cabinet members, to release funds or establish the posts for the older political leaders.

Preoccupation with these pressures and disputes could dissipate the government's reform efforts. Should the conservatives become sufficiently outraged, they are probably capable of frustrating major government programs.

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**MALAYAN POLITICAL SITUATION**

Tengku Abdul Rahman's resignation as prime minister of Malaya, which becomes effective on 15 April following a two-month leave, apparently was dictated by his desire to devote full time to party affairs in preparation for the general elections this August. He wants in particular to strengthen his United Malay National Organization (UMNO), the dominant group in the ruling Alliance party. His replacement by the present minister of defense, Dato Abdul Razak bin Hussein, assures the continuation of the government's major policies. Rahman plans to



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return to the premiership if the Alliance wins the election.

The two largest components of the Alliance--UMNO and the Malayan Chinese Association--seem to be losing some popular support and are torn by internal friction and mutual suspi-



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cion. Probably of most concern to Rahman are reports that the Malay voters are apathetic and that UMNO is losing ground to the Pan-Malayan Islamic Association among rural Malay Moslems, traditionally the backbone of UMNO strength.

Rahman believes strongly that a large majority is needed

to achieve his goals of eliminating the Communist threat and building racial harmony. A two-thirds majority is required in the new House of Representatives to amend the constitution and provide safeguards with which to replace the "emergency regulations." The steady progress toward eliminating the Communist terrorist threat is likely to force the government to declare an early end to the emergency, possibly this year. Rahman believes such a declaration would leave the federation with insufficient legal means to control Communist subversive activities.

Rahman may also feel that his resignation will allow him greater freedom to play a more direct role in Singapore's political affairs prior to general elections there in May. He will probably attempt to use his position as national president of UMNO to force the Singapore branch to cooperate fully with Chief Minister Lim Yew Hock's party during the campaign. Rahman's great personal prestige could be of considerable value to Lim, especially if Rahman gives at least tacit support to Lim's campaign strategy of depicting himself as the only Singapore leader capable of paving the way for eventual merger of Singapore and the federation.

25X1

**JAPANESE - SOUTH KOREAN CRISIS**

The Japanese Government's formal decision to proceed with the voluntary repatriation of Koreans to North Korea, over Seoul's strong objections, has created a new crisis in Japanese - South Korean relations. The decision apparently ends the negotiations for normalizing relations, and the Rhee government is threatening to step

up seizures of Japanese fishing boats, to suspend trade, and to intercept any repatriations vessels. Japan has intimated it might be forced to strengthen its protective patrols in the fishing areas, which could lead to clashes between South Korean and Japanese vessels. It might, if necessary, refer the matter to the United Nations. Both

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sides appear to be trying to keep the dispute under control.

The Japanese Government's decision to act unilaterally on the repatriation issue probably stems from South Korea's intransigence in the negotiations and a desire by the Kishi government to avert a major domestic political problem before the upper-house elections in June. Other factors, such as the problem of internal security, the expense of maintaining many destitute Koreans, pressure on the labor market, and Japan's vulnerability to charges of violating human rights also entered into the decision.

In a rare display of unanimity for South Korea, both administration and opposition leaders have endorsed nationwide demonstrations protesting Tokyo's decision.

The new anti-Japanese campaign may revitalize President

Rhee's waning popularity, and give him an opportunity to divert international attention from the political crisis precipitated by the administration's use of force on 24 December to enact legislation inimical to the opposition Democratic party. It might even lead to a compromise of the domestic political crisis.

Japan has requested the International Committee of the Red Cross (ICRC) to screen and transport the applicants, who may number up to 100,000. A rejection of the request by the ICRC would force the Japanese Government to allow the Japanese Red Cross to deal directly with the North Korean Red Cross, as already requested by Pyongyang. The North Korean Government has thus far failed to reiterate an offer made in September 1958 to provide transportation and guarantee a livelihood for all returnees.

25X1

**ECONOMIC ASPECTS OF THE SOVIET 21ST PARTY CONGRESS**

The Soviet Seven-Year Plan was approved by the 21st party congress without significant change. Long-term objectives remain the "further consolidation of the economic and defense might of the USSR on the basis of the priority development of heavy industry." The consumer still takes a back seat to the investment program, but, according to Khrushchev, the next 10 years will show that the USSR leads the world in improving the material welfare of its citizens.

This will result, he said, from accomplishing the goal of surpassing American production in agriculture in 1965 and in industry by 1970. In his calculations, however, Khrushchev overstates the present position

of Soviet industrial output relative to US output, thus arriving at the early date of 1970, and he may be underestimating future US growth rates. Calculating Soviet industrial output at present at 40 percent of that of the United States, not 50 percent as used by Khrushchev, and assuming a slightly higher rate of growth for future American industrial output, Soviet industrial output would be about 60 percent of that of the US by 1970.

The new nations of Africa were advised to look at the rate of economic growth in the United States, compare it with growth rates in the USSR and China, and then decide to adhere to one system or the other. Khrushchev, the other speakers at the congress, and the whole Soviet

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propaganda machine are sparing no effort to extol the bloc's faster rate of economic growth, confident this will persuade uncommitted nations to "choose socialism."

Khrushchev's ebullient but almost certainly fallacious prognosis that the Communist bloc will produce more than half of the world's industrial output by the end of seven years was amplified by the vice president of the Academy of Sciences, Ostrovityanov, who stated that this projected level of output would bring about a situation in which the bloc would occupy a leading position in international exchange and monetary turnover.

Ostrovityanov said Communist countries, which now trade among themselves on the basis of world market prices, will begin gradually to set their own prices based on production costs in the socialist camp. The Soviet ruble, he felt, will begin to enter the arena of the international market and gradually crowd out the dollar.

To do this, however, the bloc must be able to provide quality goods in adequate quantities at competitive prices. There is no sign that Soviet leaders plan soon to make the ruble a freely convertible currency. Khrushchev recently said that if such a plan were contemplated, he would probably advise against it.

M. G. Pervukhin, former planning expert and quondam member of the opposition to Khrushchev, was charged with espousing policies which the USSR had to subsequently reverse--such as favoring hydroelectric over thermal power, favoring coal over petroleum, and permitting only slow growth in chemicals. While there may be some truth in these charges, certainly the primary reason for Pervukhin's present dis-

grace is his opposition to Khrushchev's plan for the reorganization of industry. His detractor at the congress, present planning chief Kuzmin, charged that Pervukhin had derogatorially referred to an alleged "organization itch" of Khrushchev.

Khrushchev repeated at the congress his statement that serial production of ICBMs had been successfully organized, and in a speech in Ryazan just after the congress he again made this remark and added that Western observers, having given the matter second thought, have decided to agree with him. Serial production, in normal Soviet usage, would mean producing standardized missiles at a planned rate for delivery to operational units, and presumably, this is what Khrushchev has in mind. Although for some items a "mass production" stage follows "serial production," this is probably inapplicable to ICBM production.

Minister of Defense Malinovsky and Deputy Chairman Ustinov of the USSR Council of Ministers also made noteworthy statements on rocket development. Malinovsky said Soviet ICBMs could reach any part of the world, and precisely any spot because they are very accurate. He also said the armed forces have been equipped with a whole series of military ballistic missiles: intercontinental; short-, medium-, and long-range continental; and a whole group for tactical purposes.

Ustinov--apparently responsible for overseeing the military production programs--said the USSR is now "serially producing military rockets of all types and purposes which, in the hands of Soviet armed forces ... will give a worthy rebuff to any aggressors and adventurists." (Prepared by ORR)

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**EAST GERMANY IMPORTS DUTCH WORKERS TO REDUCE LABOR SHORTAGE**

About 90 Dutch workers went to East Germany on 1 February to take jobs in the East German shipyards at Warnemuende in spite of the protests of local unions and warnings by Dutch Government officials. A Rotterdam firm, contracting with East Germany to supply labor for a one-year period, advertised locally and received about 1,000 applications. The workers--under contract for a five-week period which is renewable after a week's leave to return home--are to receive a generous wage compared with the Dutch and East German scales, a major part of it in foreign exchange.

Apparently other workers from Western Europe, particularly West Germans, will be brought to East Germany, and the opportunity to propagandize the East German provision of jobs for the unemployed in "capitalist" states will be exploited fully.

Taking this extraordinary means to overcome its labor

shortage, the regime risks increasing discontent among shipyard workers, who have succeeded to date in resisting regime efforts to raise work norms. The East Germans may be concerned that the Westerners will be more efficient. Officials apparently plan to reassure East German workers on this point or have the Dutch workers adjust their efforts.

The East German radio recently mentioned that there is a labor shortage of as much as 115,000 persons in the country. These shortages are partly caused by the large number of refugees fleeing to the West and to the fact that some industries, starved for up-to-date equipment, require more labor than they should. Refugees number 200,000 or more persons a year, the majority of whom are in the productive or potentially productive age group, presenting the regime with a very serious challenge to its economic goals.

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**CHU TE LIKELY TO SUCCEED MAO TSE-TUNG AS GOVERNMENT CHAIRMAN**

The British Embassy in Peiping reports that Chu Te's candidacy for the chairmanship of the Chinese People's Republic was being discussed as early as mid-January by "street committees"--the local citizens' organizations which normally would prepare public opinion for such changes. Similar explanations at the grass-roots level followed Mao Tse-tung's decision last December to re-

linquish his largely ceremonial government post.

The 72-year-old Chu, the present vice chairman and a respected party elder, is a logical choice to succeed Mao in the government job in April. Chu has been described as a sort of "lubricating oil" among the leadership--a man who would be willing to remain a figurehead and permit the real political power to lie elsewhere.

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The naming of Chu to the chairmanship would avoid a choice between Liu Shao-chi or Chou En-lai, the two Chinese leaders under Mao who hold the major power. Liu is chairman of the standing committee, the permanent body of the National People's Congress, which, along with the



chairman of the Chinese People's Republic, "jointly" exercises the chief authority of the state. Chou is premier of the State Council, the cabinet-like administrative organ which is the locus of real power in the gov-

ernment. There is as yet no indication that either Liu or Chou will relinquish his government post at the congress.

Chu has been closely associated with Mao since the early days of the party and probably ranks next to him in popularity. Regarded as the "grand old man" of the Chinese Communist Army, Chu commanded Peiping's armed forces from 1928 to 1945, and nominally until 1954. He now is an elder statesman of the regime, occupying a number of senior party and government posts in which he acts primarily as a spokesman for Mao.

Mao's decision to step down as government chairman apparently had considerable impact on the average Chinese, who Peiping admits was unable to understand the "logic" of the decision. Concern over this popular reaction appears to have been an important factor in the delay of the congress from January--when it was originally scheduled--to April. The discussion of Chu's candidacy at the local level appears to be the regime's first major effort to build up Mao's successor in the government. 25X1

**PEIPING SHIFTS EMPHASIS IN RURAL WORK**

Peiping's agricultural programs apparently have been undergoing a re-evaluation in a series of national agricultural conferences since December. Peiping apparently has been forced to recognize that the compulsive pursuit of some of its agricultural program has not been sound. Peiping almost certainly overestimated the success of its experimental plots last year. Based on these questionable successes, a number

started to withdraw important acreage from production and

to farm greatly increased areas by methods used on last year's experimental plots. This drive now has been shelved until national yields reach more than ten times the 1958 level.

It is evident that last year's spectacular iron and steel drive, whatever its success, brought some dislocations to the rural economy. At its height last October, this drive took up to 25 percent of the rural labor force away from pressing harvest and planting tasks.

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Apparently this was too much, even for China's labor-rich economy. Crops lay unharvested in the fields, and normal transportation and distribution channels were disrupted. Peiping now describes its iron and steel program in rural areas as one to produce "more and better iron and steel with less manpower."

Manpower is also to be taken away from water-conservancy projects, which were highly publicized last winter, and from deep plowing, which the regime now finds expedient to restrict. Peiping says that it will be satisfied if deep plowing--which in most instances has meant manual digging of the soil to a depth of several feet--is completed on only one third of the cultivated area and to a depth of one foot or only seven or eight inches.

Rural manpower thus released is to be employed for the most part in tasks directly connected with actual cultivation. At least half of a commune's labor force is to be devoted to work in the fields; one fourth is being devoted to the current campaign to expand the production of fertilizer. More attention is to be paid

to what Peiping describes as "sideline" occupations--such as forestry, fishing, and the production of meat and vegetables. Peiping has urged this "diversification" on the communes and has even suggested that the communes should look to this source for higher income.

Peiping at the same time has been at pains to point out that it definitely is not abandoning its plans for a bigger and better "giant leap forward" in agriculture this year. The "tempo" of labor activity is to be stepped up, not just by lengthening the working day--Peiping acknowledges that a "man cannot last long without eating and sleeping"--but also by improving tools and organization and thus raising labor productivity.

It is apparent, however, that the immense labor requirements of this year's leap forward will not be met by such measures alone. The regime has in fact told its rural cadres that the "efficient measures" used in last year's mass labor campaigns should again be used.

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**THE SITUATION IN CUBA**

The provisional Cuban Government has assumed an appearance of greater unity with the appointment of Fidel Castro as prime minister. Nevertheless, the lack of administrative experience and organizational ability among many top officials will probably continue to limit the administration's effectiveness. Castro will dominate the government, as he did before his

position became official, and all authority and policy will emanate from the cabinet instead of the president. Castro himself, however, has no government experience and has demonstrated little political or administrative ability.

The government is confronted with pressing financial, social, and labor problems which will

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quickly test its competence. The regime has already lost some prestige and popularity because of delay in tackling these problems. Criticism, particularly from certain special interest groups such as labor and business, will become sharper if decisive measures are not initiated quickly. Certain political groups with no voice in the government, such as the followers of former President Carlos Prío Socarras and members of the Revolutionary Directorate, which have already demonstrated some opposition to the Castro movement, will try to exploit any further weakness or delay in the government program. The administration will probably give priority to land reform, long one of Castro's particular interests.

The first cabinet meeting under Castro's leadership, held on 17 February, launched an austerity program with a decree cutting cabinet salaries in half and another directed against graft among government officials.

If enforced, these measures will be revolutionary to Cuba's traditionally corrupt politics. Measures were also taken to reopen Havana's gambling casinos in order to avert a threatened hotel employees' strike and to bolster Cuba's lagging tourist trade.

There is no indication of a letup in Castro's "campaign against dictatorships," although activities against the Dominican Republic, Haiti, Nicaragua, and Paraguay have apparently not progressed beyond the planning stage. Plotting will undoubtedly continue, and members of the Castro movement will probably offer material aid to exile groups. The antidictatorship propaganda campaign is now being directed at the Organization of American States (OAS), and both the Cuban ambassador to the OAS and Foreign Minister Agramonte are attempting to have all countries under dictatorship expelled from membership. Cuba has threatened to withdraw from the OAS if its plan is rejected.

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**THE NEW VENEZUELAN GOVERNMENT**

Venezuelan President Romulo Betancourt, inaugurated on 13 February, has organized a coalition cabinet without Communists which apparently is acceptable to the three major left-of-center parties--his own Democratic Action (AD), the Republican Democratic Union (URD), and the Christian Democratic COPEI. Formation of a coalition government fulfills one of the basic provisions of a unity pact signed by the three groups prior to the December elections. None of the ministers is known to be unfriendly to the United States, and Betancourt has indicated he will not make any further precipitate changes in the relations between

the government and the foreign oil companies such as the issuance of the income-tax decree of last December.

The 14-member cabinet--including four holdovers from the outgoing junta government--has three members each from the URD and COPEI but only two from the AD. The AD members, however, hold the Ministries of Interior and of Mines and Hydrocarbons, the most important political and economic posts. Moreover, the six politically "independent" members appear to give the cabinet a strong AD orientation as well as considerable prestige at the outset. Five of them--

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including the secretary to the presidency, who will carry cabinet rank--seem to have close ties with the AD. The sixth, a renowned medical specialist and nephew of a prominent Venezuelan pro-Communist, is a technical appointee to the Ministry of Health.

The URD, which polled a large vote last December in Caracas, where Betancourt has only limited support, received the posts of labor, communications, and foreign relations. The new foreign minister, Ignacio Arcaya, is president of the URD and seems more moderate in his views on US-Venezuelan relations than his key party leaders. Since these officials are likely to be confronted with serious political problems, Betancourt may have assigned them to the URD as a maneuver camouflaged as generosity. Both the URD and the Communists, who reportedly were not included in preliminary discussions on formation of the cabinet, have shown signs of resentment over the election outcome and may attempt indirectly to embarrass the direction of the new government.

The viability of the coalition will depend in large measure on Betancourt's ability to

conciliate divergent views on socio-economic reforms, to minimize traditional party animosities, and to maintain the support of the military. It will also depend on the willingness of the URD and COPEI to sacrifice their own interests for



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the sake of unity, since government achievements are likely to be credited to AD and thus further strengthen its position as Venezuela's largest party. Furthermore, the AD's control of Congress should enhance Betancourt's influence over the executive branch.

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**URUGUAY'S NEW GOVERNMENT**

Almost a century of rule by Uruguay's leftist-oriented Colorado party will end on 1 March when the conservative National party (NP) takes over the government. The conservatives scored a resounding victory last November when the electorate expressed its resentment of the Colorado party's Tammany-type politics and its failure to tackle Uruguay's serious economic problems.

Members of the new government are generally agreed on the urgent need for economic reform but are hampered by inexperience, divided by factional struggles over patronage, and beset by a divergence of regional interests. These differences will seriously complicate the difficulties inherent in Uruguay's cumbersome nine-man executive in which the opposition by law has one third of the seats.

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The most disabling difficulty is the patronage split which places the NP's three "ruralist" councilors, headed by Benito Nardone, in opposition to the three "old-line" members. The "old-line" group is controlled by 85-year-old Alberto Herrera, long-time NP boss, who holds no office but is determined to run the government from behind the scenes. Herrera has evinced no sign of placating the third important faction, the Blanco Democratic Union, a business-oriented group which, while not represented in the nine-man executive, won almost half the NP's 51 seats in the 99-man Chamber of Deputies.

The most urgent problems confronting the new government are the skyrocketing federal debt, the nation's decreasing productivity, and the increasing trade imbalance. The government debt has nearly doubled

since 1954, chiefly as a result of inefficient state monopolies and welfare-state activities, while the gross national product has decreased in absolute as well as per-capita terms. Foreign earnings from Uruguay's chief exports, wool and meat, were cut in half between 1953 and 1957, partly because politically inspired subsidies deflected production into less profitable channels.

The outgoing government turned increasingly to Soviet bloc trade to alleviate these difficulties. NP leaders, while deploring this trend, see continuing bloc trade as an economic necessity for the short run. They plan to seek early financial aid from the United States and the International Monetary Fund, but their plans for basic economic reforms will almost certainly be stymied until power squabbles within the party are resolved.

**SOUTH AFRICA TO TIGHTEN RACIAL SYSTEM**

Prime Minister Verwoerd of the Union of South Africa has recently made proposals to strengthen white supremacy by eliminating any African representation in Parliament and stimulating tribal differences. This is unlikely, however, to improve South Africa's reputation abroad, to satisfy the Africans, or to prevent eventual racial disorders.

Verwoerd proposes to establish five areas, based on major tribal groups, in which the Africans would be allowed to exercise local control and to govern through a reconstituted tribal hierarchy. Each area would have a native secretary general with direct access to the white minister of Bantu de-

velopment who would appoint him. The area would have a governing body, subject to the veto power of the minister, and a white resident commissioner general. It would appoint an envoy to the national government.

Although Verwoerd apparently envisages autonomous Bantu states as entities within a "Commonwealth of South Africa," with the eventual withdrawal of white administration from the African areas, his proposals are unlikely to lessen the bitter racial tension within South Africa.

Verwoerd has also asked Parliament to abolish the present system of representation whereby the 9,000,000 Africans

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have three European representatives in South Africa's 163-member House of Assembly. This would eliminate the Africans' last remaining token say in the legislature controlling their lives.

The incumbent Nationalist party apparently believes that these proposals constitute "positive" apartheid which would enable the Africans, with limited financial aid from the government, to develop their own industries. The government has already proposed a Bantu Investment Corporation Bill with an official share capital of \$1,400,000 to stimulate economic development in the native reserves.

The Verwoerd government has virtually ignored the problem of the urbanized African, in line with the apartheid theory which aims at returning the Africans to their rural tribal groups. Furthermore, the proposals do not face up to the economic realities of South African life. The economy depends

on non-European labor for about 90 percent of the working force, the native reserves can barely provide for the 3,000,000 Africans now living in these rural areas, and the \$1,400,000 investment fund now envisaged ap-



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pears inadequate when compared with the \$280,000,000 developmental aid considered a minimum by an official commission which studied the problem recently.

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## PART III

PATTERNS AND PERSPECTIVES

## KHRUSHCHEV IN ACTION--THE DECEMBER PARTY PLENUM

The Soviet party central committee met in plenary session on 15 December 1958 for the sixth time in a year and the second in two months. In many respects the five-day session was unique. In contrast to the usual secrecy surrounding plenums, the decision to hold it and the subjects for discussion were announced publicly a month in advance. Moreover, the Soviet press and radio gave a day-by-day account of the proceedings, and a "stenographic report" of the plenum was published in book form a few weeks later.

Thus there is some question as to just how typical the proceedings of this plenum were, but when due allowance is made for the purpose behind all the publicity, there still remains a reasonably reliable picture of Khrushchev and his central committee in action. Many of the particularly revealing parts of the plenum were omitted from Soviet press and radio accounts; the following analysis, therefore, is based on the stenographic report and concentrates on the material that was not published at the time.

Cult of Personality

The strongest over-all impression regarding the plenum is that it was primarily designed to enhance the leader image of Nikita Khrushchev as the focus of loyalty or obedience of the Soviet people and the model for subordinate leaders. Although he moved rapidly after Stalin's death to seize control of the essential elements of power in the Soviet Union, Khrushchev has been slow to use propaganda media deliberately to create an idealized picture of himself

as the powerful paternal authority in Soviet society possessing all human virtues and no human frailties. The December plenum marks the first serious attempt to develop this leader image.

This plenum was not a working body in the sense that it heard, discussed, and formally approved new policies. Khrushchev said that "the work of our plenum will evidently constitute a political accounting by the party to the people on the condition of agriculture." Agriculture was chosen as the topic for discussion, presumably because it provided the ideal media in which to develop the Khrushchev leader image. It is the field Khrushchev knows most about, the field in which his policies have been active for the longest time and in which he feels they have been demonstrably successful.

The volume of praise for Khrushchev at the plenum was unprecedented. Nearly every speaker made a point of singling him out for eulogy or special recognition, and the bulk of this praise was for him personally--not, as generally theretofore, in his capacity as first secretary, "head" of the party presidium, or premier. The strongest praise came from Moscow Oblast First Secretary Kapitonov, who called Khrushchev "a paragon of the Leninist style of leadership." Most speakers, however, related their praise to Khrushchev's specific policies, advice, or accomplishments in the agricultural sphere.

An effort was evidently made to keep the praise within the bounds of realism, to make it appear genuine, as applying to a flesh-and-blood person--

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## CULT OF PERSONALITY

EXCERPTS FROM SPEECHES AT DECEMBER  
PLENUM OF SOVIET PARTY CENTRAL COMMITTEE

- "If Nikita Sergeyevich Khrushchev had listened to the doubters even a little bit, then we would not have achieved such brilliant successes in the development of livestock growing."
- "Many thanks to you, Nikita Sergeyevich. You have taught us how to raise corn."
- "Of great assistance in the expansion of sheep breeding were the personal instructions of Comrade N. S. Khrushchev."
- "And then Comrade N. S. Khrushchev came to visit Belorussia. This was a great event for the Belorussians."
- "Your criticism, Nikita Sergeyevich, I accept as a serious requirement for the Rostov Oblast party committee, for all rayon party committees, and for myself."
- "What an outstanding role in the accomplishment of these exceedingly difficult economic tasks was played personally by Nikita Sergeyevich Khrushchev."
- "The amazing rise which has occurred in agricultural production would have been unthinkable without the enormous organizational and political work which is being performed by the whole party, by its central committee, by the party presidium, and by Nikita Sergeyevich personally."
- "The initiator of the very important measures for a steep rise in agriculture, and in particular for the mastering of virgin lands as the chief source for great development of grain production, was Nikita Sergeyevich Khrushchev."
- "The remark of Nikita Sergeyevich Khrushchev that under the conditions of Kalinin Oblast the natural reservoirs can well be used for raising ducks--this we accept for execution as a directive of the central committee of our party."

not to a superhuman being. The stereotyped superlatives of the Stalin era, "omnipotent" or "infallible," for example, are conspicuous by their absence. But as speaker after speaker added his bit of praise, an unmistakable image of charismatic leadership emerged and the new "cult of personality" was carried one step closer to realization.

Attack on the Antiparty Group

In volume of words and extravagance of invective, the attack at the plenum on the "antiparty group" was the sharpest since the initial campaign following the group's defeat in June 1957. This fact, plus the appearance of Bulganin to confess to a role of "nominal" leader of the group, led some observers to conclude that denunciation of "antiparty" opposition to Khrushchev was the real work of

the plenum. Read in the context of the full proceedings, however, the criticisms of the antiparty group are clearly seen to be there for the purpose of dramatically underscoring Khrushchev's victorious leadership, as well as of emphasizing the wisdom of his policies and the deep debt of gratitude the Soviet people owe him for saving them from the "disastrous" policies of the defeated leaders.

The major speeches at the plenum all follow much the same outline:

- 1) praise for the policies of Khrushchev ("The outstanding occurrence in the life of the people was the September 1953 central committee plenum which accepted, on the report of N. S. Khrushchev, the historical decisions on agriculture");
- 2) comments on efforts of the "antiparty group" to frustrate Khrushchev's policies, and the struggle and victory of "good" over "evil" ("I was amazed at the great work, the will power, the patience, and the decisiveness which Nikita Sergeyevich Khrushchev displayed when he struggled against the antiparty group and resolutely routed out their antiparty intrigues"); and

3) a portrayal of the improvement of agricultural conditions in the speaker's bailiwick since September 1953 and a discussion of what is being done to fulfill the "wise policies of Nikita Sergeyevich" to further increase agricultural production and improve conditions in the countryside.

The "antiparty group" is thus a symbol of the futility and danger of opposing Khrushchev's policies, a symbol of obstacles overcome, and an affirmation of his right to lead.

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The Plenum at Work

The plenum was obviously carefully planned. There is virtually no sign of spontaneity in any of the speeches and none at all of debate. Except for Khrushchev's irrepressible interjections in many of the speeches, the whole proceedings were scarcely distinguishable from the completely stereotyped Supreme Soviet sessions, in which carefully prepared speeches grind through to preordained unanimous conclusions and only minor changes for the sake of appearances are made in the government's proposals.

If the December plenum is any guide, the meetings of the central committee are much larger forums than previously supposed. In addition to the full and candidate members of the central committee, the members of the central auditing committee were also present. Sixty-seven speakers came to the rostrum during the five-day session, but only slightly over half of these were members of the central committee. The others were collective farm chairmen, tractor brigade leaders, lower echelon party workers, and two speakers who were not even members of the party.

The general impression conveyed by the stenographic report is that the central committee plenum has become just another public forum for the transmission of Khrushchev's ideals, personality, and drive. It has evolved from the moribund institution of Stalin's later years, through a period in which it was an occasional arbiter in disputes that could not be resolved in the party presidium, to its present status--a sort of "Supreme Soviet" of the party.

A Secret Session?

Although billed as a stenographic report, the published

volume does not include a verbatim account of all that went on at the plenum. Part of one of the minor speeches was clearly paraphrased, and the report on the work of the editorial commission was not given. The major omission, however, relates to the leadership shake-up that had taken place in the Turkmen Republic just a few days before the December plenum convened in Moscow, and suggests that a "secret session" of the plenum was held to consider the matter.

In the Turkmen shake-up, First Secretary Babayev and another secretary, Durdyeva, were dismissed for "gross mistakes in their work"; Dzhumak Karayev was elected new first secretary. Karayev reported to the plenum in Moscow on the affair, but his remarks were summarized with the statement, "Comrade Karayev then went on to dwell on certain questions of intraparty work."

It was later revealed that Babayev has been ousted from the all-union party central committee, presumably at the December plenum. Babayev is the only person other than the original four of the "antiparty group" to be ousted from the central committee since the Soviet 20th party congress in February 1956. The secrecy surrounding his ouster indicates that there are still some functions of the central committee too sensitive for public scrutiny.

Khrushchev in Action

Khrushchev delivered the opening report and the concluding address, and his name and spirit dominated every speech. As the stenographic report reveals, he dominated the proceedings in other ways as well. Beginning with the first speaker and continuing throughout the plenum, he interrupted speech after speech to inject a thought, make a correction, or call the speaker to task.

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Over half of the speeches were interrupted in this way. In some cases the interruptions were so extensive that the speech was turned into a dia-

**KHRUSHCHEV INTERRUPTS...**

*GITALOV (tractor brigade leader): The introduction of complex mechanization in the cultivation of corn has done much to promote the high yield of this crop in all kolkhozes of the oblast.*

*KHRUSHCHEV: How is it that you obtained so little silage, only 66,000 pounds?*

*GITALOV: Our land is steppe and arid zone.*

*KHRUSHCHEV: I know. I've been in your steppe.*

*GITALOV: We are trying to obtain more.*

*KHRUSHCHEV: I think that's fine, Comrade Gitalov. And I'm not criticizing you. I only want you to produce more.*

*GITALOV: Nikita Sergeyevich, we are trying, but I can't answer exactly because I spent three and a half months in America during this period.*

*KHRUSHCHEV: Now you probably don't understand Ukrainian any more.*

logue between the speaker and Khrushchev.

There is little question that this is one of Khrushchev's ways of working. He has absolute confidence in his own knowledge and judgment, and is impatient with others. He seems to feel an inner necessity to push things along by injecting the force of his personality and authority into the discussions. He is much more disposed to argue and explain a point, however, than simply to order a certain policy carried out.

*SEMICHAISTY (Komsomol secretary): It is our opinion that we should proceed to establish certain nonworking days for students (working on kolkhozes), additional leave, and other advantages.*

*KHRUSHCHEV: I think we should be careful about offering paid nonworking days to the workers because this could be used to advantage not only by the young men who want to study but also by those who do not want to work.*

*SEMICHAISTY: Then, perhaps they could be selected on the basis of recommendations by public organizations.*

*KHRUSHCHEV: Even recommendations may not help much either, as everyone has an in-law or a brother and everybody will recommend.*

When RSFSR Deputy Minister of Agriculture Yurkin complained of an administrative disagreement over the use of sugar beets,

Khrushchev said: "I'll advise you what to do with the sugar beets the plants can't process. fatten hogs and get very good lard." Yurkin objected that it was a problem of commodity production, whereupon Khrushchev explained, "Comrade Yurkin, pork --that is also commodity production. If the sugar plants cannot process the beets, let the hogs process them and convert them to lard. That will be commodity production."

The argument continued in much the same vein until Yurkin acknowledged that sugar beets should be regarded both as a raw material for sugar production and as a product for fattening cattle. Then Khrushchev said, "See, we were agreed."

*MUSTAFAYEV (Azerbaijani party secretary, proposing a system of fees for pasturing of individually owned livestock): With this money it is possible to establish an intercollective farm monetary fund and build intercollective farm roads and water lines.*

*KHRUSHCHEV: Comrade Mustafayev, we are not raising objections against reformation of the countryside, but you are introducing an incorrect proposal. What you are talking about is a tax; it is a penal policy and is not appropriate for us. Collective work must be introduced among the population. It is necessary, first of all, that the Communists working in the village be actual examples in this matter.*

*MUSTAFAYEV: Right, Nikita Sergeyevich, but to make use of this possibility takes time.*

*KHRUSHCHEV: Why is more time needed? Forty-one years of Soviet power have passed. This is sufficient time.*

In this exchange, however, Yurkin had the last word. He answered, perhaps more bravely than wisely, "Agreed, except about the sugar plants." The stenographic report notes that this sally was greeted with laughter from the hall.

Khrushchev's compulsion to be the center of attraction was made clear by the occasional irrelevance of his remarks. Most of his interruptions, however, show him off in a better light. Some of his interjections seem to have been planned together with the speaker to enable him to make a point. This appears to have been the sole purpose

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for one speech in particular-- that of Dubkovetsky, a kolkhoz chairman from the Ukraine. It was the shortest speech at the plenum, consisting of little more than an introduction and a dialogue with Khrushchev.

Khrushchev: "Fedor Ivanovich, what is the percentage of corn to the over-all area planted to grain crops at your kolkhoz?"

Dubkovetsky. "Almost 30 percent."

K: "And if corn were to take up one half of that area?"

D: "We could do that by cutting down on other grain."

K: "Perhaps wheat?"

D: "We get 2,200 pounds of wheat per acre."

*RUDENIKO (a rayon party secretary): Practice in applying the new method shows that the best combination of manual labor and machines is achieved in the larger field teams. Therefore, the kolkhozes are currently employed in adding to the staff of these field teams.*

*KHRUSHCHEV: Those aren't field teams, they're brigades.*

*RUDENIKO: Field teams numbering 50-60 persons.*

*UNIDENTIFIED VOICES: Those are brigades.*

K: "And corn?"

D: "This year we got 4, - 300 pounds of corn per acre."

K: "This means it's advantageous to plant corn?"

D: "Of course, it's advantageous."

Sometimes Khrushchev appeared to nonplus the speaker, who wasted no time getting back to his prepared speech. Occasionally Khrushchev was not satisfied until he had made the speaker really squirm.

He interrupted the speech of Altay Kray Party Secretary

Pysin with a number of pointed questions to which Pysin responded, "As a rule..." Khrushchev countered: "But you keep saying 'As a rule,' staring at the

**KHRUSHCHEV INTERRUPTS...**

*SHKOLNIKOV (Voronesh Oblast party secretary): The Ministry of Agriculture and USSR Gosplan should consider the question of producing, within the next few years, a sufficient number of improved machines for the mechanized loading and unloading of sugar beets.*

*KHRUSHCHEV: You are correct in raising the question of attachments. They should be produced. In line with this, during the gathering of sugar beets, the harvesting machine should not be overloaded. Instead, the sugar beets should be loaded directly into the drawn attachments, with the attachments then being sent off to the refineries without being unloaded.*

*SHKOLNIKOV: That is very good... Our sole request is that Gosplan and the ministry devote some thought to this question.*

*KHRUSHCHEV: Of course the workers of the ministry and Gosplan ought to think about it, but so should you.*

ceiling without facts. It would be a good idea for you, when you go back, to study this directly on the collective and state farms. I say this to you because you do not have any figures at hand, and it is a serious business." Pysin then returned to his prepared speech, only to provoke Khrushchev's anger a moment later by indulging in a bit of self-criticism-- usually a fairly safe thing to do.

*PODGORNYY (Ukrainian party secretary): We are doing everything possible in order that the Ukraine may do its bit in this great state cause and produce 34 million tons of grain.*

*KHRUSHCHEV: Comrade Podgornyy, I have just had an idea which I will tell to you. Can't the percentage of corn in the grain sowings be increased? How much grain in all is the Ukraine sowing now?*

*PODGORNYY: Forty-four million acres.*

*KHRUSHCHEV: Couldn't (about half) of this be put under corn? Look at the ratio between plantings of grain, wheat, and corn in America. More than a third of their sown area is given over to corn.*

*PODGORNYY: I wish to say, Nikita Sergeyevich, that for the Ukraine this would be a major means of increasing the gross yield.*

Pysin recalled a statement in Khrushchev's report that meat production in Altay Kray was poorly managed and admitted that this was so, whereupon Khrushchev warned: "Poorly

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indeed! We have had a tolerant attitude toward you because you were given a primary task--exploitation of the virgin lands, obtaining grain. Now it is the second stage. It is necessary to be occupied properly with livestock on the virgin lands." Pysin hastily replied: "We will do this, of course, Nikita Sergeyevich, and will certainly correct the situation."

Taken as a whole, Khrushchev's interruptions contributed to a picture of him as wise, paternal, benevolent, firm but reasonable, accessible, and human--all elements in the leader image he is trying to develop.

Khrushchev's Pet Project

Khrushchev may have chosen to discuss agriculture at the plenum for purposes other than consideration and approval of new departures in agricultural policy, but he is not one to pass up a good opportunity to plug some of his pet projects and do a little pre-21st party congress thumping for fulfillment of Seven-Year-Plan agricultural goals. The plenum report provides a unique gauge of the intensity of Khrushchev's obsession with corn as an agricultural panacea. He not only seized every opportunity to extol the merits of corn but, when no obvious occasion presented itself, he created one.

He interrupted speech after speech, many times completely out of context, to question or badger the speaker about corn, and he was particularly impatient with any mention of obstacles.

Khrushchev obviously feels that the merits of corn are still insufficiently appreciated. When one secretary asserted, "In our attitude toward corn, none of us are skeptics," Khrushchev replied, "There are still many; they have only begun to talk less." One kolkhoz chairman, evidently paying close attention to Khrushchev's sales pitch, offered sage counsel to the skeptics: "The only place corn won't grow is where party and government organs underestimate its tremendous...political significance."

From these interchanges, as well as from other aspects of the plenum, there emerges a clearer picture of Khrushchev bent on obtaining his agricultural goals through party persuasion, drawing out local initiative and resources, and creating competition among the agricultural areas. His unbounded enthusiasm for corn and his faith in the presence of vast untapped agricultural resources permeated the plenum and certainly leaves the impression that he is genuinely confident that the major agricultural goals of the Seven-Year Plan can be achieved. 25X1

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**THE IMPACT OF THE CHINESE COMMUNES IN EASTERN EUROPE**

The East European regimes reacted cautiously in August, September, and October 1958 to the initial Chinese Communist build-up of the commune program,

probably because of hesitancy to take a position in the absence of clear guidance from Moscow and because of confusion about the ideological and policy

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implications of the Chinese commune experiment. Factual accounts of the experiment were presented sporadically by their mass media during this period, but authoritative commentary was almost nonexistent.

The communes, as initially built up by Chinese propaganda media, had to East Europeans in general an Oriental, rather inhuman aura about them which, even to confirmed Communists, did not make them appealing as an example to follow in Communist development. This reaction of the ordinary people was also true, if to a slightly lesser degree, of liberally inclined Communists. Western press reports in October that Polish Communists were "appalled" at the degree of regimentation and conformity in the communes were probably accurate.

**Yugoslavia**

Yugoslavia played up for its own purposes those aspects of the communes--their military appearance, their expropriation of private property, and their disruptive effect on fam-

ily life--which were most likely to be distasteful to the satellites. The Yugoslavs were, of course, influenced strongly by China's actively hostile role in the bloc dispute with Belgrade. Nonetheless, Belgrade concluded that its approach would find a sympathetic audience not only among the Eastern European people, but also among elements of the Communist parties who still favored liberal policies.

President Tito spoke on 23 November of the "military communes," claiming the experiment had little in common with Marxism, and contrasting the Chinese approach with the humanitarianism and material incentives which were a part of the Yugoslav "road." By early December the Yugoslavs were goading the satellite regimes, calling attention to their lack of commentary on the Chinese program and adding that this was the first time that an important innovation in the affairs of one of the leading members of the "camp" had not been commented on by the others.



PHOTO OF CHINESE DAM BUILDING PROJECT PUBLISHED IN WARSAW'S SWIAT, 12 OCTOBER 1958

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Satellites Reserved

The satellite regimes, nevertheless, continued to act with reserve. Only in Poland did any commentary appear which might have been construed as critical. The Polish youth organ Sztandar Mlodych said in mid-September: "It is difficult to foresee the implementation of this resolution.... Even a most fanatical disciple of decentralization must admit that during a certain historical period, centralism was a useful, nay, an indispensable thing."

Such criticism appeared to reflect a more conservative Communist outlook, which took the scheme to task because it implied that an important phase of development of the Soviet model would be skipped. This may have paralleled similar misgivings in the Kremlin about the experiment. Even doctrinaire Communists thus reacted unfavorably to the communes, preferring for the most part to look for inspiration to the less radical, more Western-oriented example of the Soviet Union.

The satellite leaders had good reason for their cautious approach to the commune question. If the Chinese approach to "building Communism" were to be accepted by Moscow and its application encouraged in Eastern Europe, it could be deduced that radical basic policy changes were in order, especially in agriculture. This prospect was unlikely to be greeted with enthusiasm by the party leaders, particularly in Poland and Hungary.

Stalinists' Reaction

This was by no means the case, however, among all Communist leaders in Eastern Europe. To many of the Stalinists in the Eastern European parties, the hard-line, forced-draft, radically leftist approach of the Chinese "great leap forward"

evoked a favorable response. Many of these Stalinists approved the spirit of the Chinese approach and saw in the program features which they could use to justify their own views on domestic policies, as well as to criticize their less zealous opponents.

During the October 1958 plenum of the Polish United Workers' (Communist) party, prominent members of the "Nato-lin" faction of the party seized on certain features of the Chinese Communist experiment to justify their criticism of Gomulka's domestic policies. Certain industrial techniques in use in Communist China were referred to with the implication that Poland's industrial policies would benefit by emulation.

The Stalinist Stanislaw Lapot, refuting an argument Gomulka had often used to support his agricultural policy, said that the experiences of several bloc countries--and "especially the People's Republic of China"--showed that active collectivization did not necessarily entail a decrease of productivity in the early stages. The seriousness of these attacks is reflected in Gomulka's summation at the end of the plenum in which he insisted that the Chinese achievements were not applicable to Poland.

Although there is little direct evidence of similar actions by Stalinists in the other satellites, they too probably seized on the Chinese program to support their arguments.

In Hungary, Kadar has been under pressure from his Stalinist opponents for a sharp increase in collectivization and the employment of coercive measures against recalcitrant peasants. Following a party meeting in Budapest to discuss the regime's agricultural policy, Kadar denied on 25 January that Hungary was ready for a "big, swift leap

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forward" in agricultural collectivization. His terminology suggested that during the debates the Hungarian Stalinists, like their Polish counterparts, had drawn on the Chinese Communist approach to support their attacks against him.

Bulgaria

The general "hard-line" spirit of the Chinese Communist program held considerable appeal for the Bulgarian leaders, most of whom were entirely sympathetic to a Stalinist-type approach. Not the least enthusiastic of these was former party chief Vulko Chervenkov, who led an official delegation to China in October, and whose speeches and official statements at the conclusion of his visit reflected clear, although guarded, enthusiasm for the Chinese program.

In early November the Bulgarian leaders launched a radical new economic program which, while primarily inspired by and based on Soviet experience, also reflected inspiration from the Chinese Communist experiment. The Soviet-type amalgamated collective--not the Chinese commune--was adopted as the basic unit of the Bulgarian program, but the program was described in Chinese terminology such as forward progress by "leaps and bounds," and used Chinese techniques such as "voluntary" mass labor and fixed periods of productive labor for party and government officials.

Thus, although there is no evidence that the Bulgarian program ever was consciously modeled on the Chinese example, during the initial period of confusion and lack of clear ideological guidance from Moscow, the Bulgarian leaders may have seized overly hastily on the spirit and some of the features of the Chinese Communist program which they felt would help their own scheme along.

Bulgarian party leaders were themselves confused at this time over the extent to which the Chinese example should be emulated. Even before party boss Zhivkov launched his program, overly zealous local Communist officials mistakenly anticipated what it would entail by taking it on themselves to organize certain "communes," one of them avowedly on the Chinese Communist model.

Despite this initial burst of excessive zeal, however, once the Chinese Communists began to tone down their approach and the Soviet attitude on the communes became clearer, the Bulgarian leaders, by speeches and articles in publications, emphatically denied Chinese Communist influence in their program. They stressed that the Chinese program was applicable only to Chinese conditions, and conversely that the new Bulgarian economic program was based exclusively on the Soviet model. Analysis of a subsequent reorganization of the administrative structure in January reveals that although certain Chinese-type features may have been included, the reorganization was indeed based primarily on Soviet practice.

Other Satellites

Some of the other satellites adopted certain features of the Chinese Communist program during this initial period. Albania, Bulgaria, and East Germany adopted the practice of voluntary labor by party and government functionaries, and East Germany went even further by requiring that military officers serve in the ranks for a period of one year. At the East German central committee meeting of 15-17 January, moreover, party leader Ulbricht strongly emphasized the necessity to develop a "communal spirit" in East Germany.

For the most part, however, after late November, when the Chinese retreat was in process

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and the Soviet attitude was clarified, the satellite press, both in reportage and authoritative commentary, came out in faithful reflection of the Soviet line. The communes were discussed extensively, but it was always stressed that they were applicable only to China.

Peiping's View

Although the Chinese claims in July and August 1958 apparently were not consciously intended as a direct challenge to Moscow in its role as bloc ideological preceptor, Moscow's cool reception of the initial Chinese claims and the sparse comment which marked East European satellite treatment of the communes probably made it clear to the Chinese by late October that they did not have a friendly audience.

In the interest of improving relations with Moscow and the rest of the bloc, Peiping began to restrict the applicability of the communes to China --a propaganda treatment which became more pronounced following Soviet Ambassador Yudin's speech in Peiping on 6 November. He reminded the Chinese that industrial production, rather than forms of rural collectivization, was the key prerequisite for beginning the "transition to Communism." In subsequent statements likely to receive international publicity, Peiping stressed that China was still in the stage of "socialist construction" and dropped the claim that the commune movement had brought the country to the verge of the "transition to Communism."

The Chinese retreated drastically in subsequent public statements on the ideological significance of the communes, and recent comments indicate that Peiping's public line for the time being--as reflected in Chou En-lai's statements at the Soviet party congress--will be to encourage the rest of the

bloc to follow the Soviet example in Communist development.

Moscow's View

Moscow probably saw in the extravagant claims which the Chinese attached to their communes --the implication that they had discovered a special and universally applicable form of social organization--a potential threat to its ideological leadership of the Communist bloc. This leadership has always rested on the claim that Soviet experience, by virtue of its length and results, must serve as the basic example for all other Communist parties; acceptance of Peiping's pretensions would clearly have tended to undermine this article of faith.

Moscow's displeasure with the communes is probably more directly related, however, to fears of the unsettling influence which the Chinese development might have in Eastern Europe, where political ambitions and economic conditions might render the Chinese example attractive to certain elements.

Moscow has yet to express any enthusiasm for the communes, but whatever their future in China and their effects on Sino-Soviet relations, Moscow apparently succeeded in persuading the Chinese to scale down their claims in the interests of stability in Eastern Europe and to publicize this retreat at the Soviet 21st party congress. Chou En-lai stressed that China would follow a common road based on Soviet experience and emphasized the applicability of the communes only to China, referring to this four times in one sentence. His comments were reinforced by the advice of Soviet Ambassador Yudin, who stated at the congress that all Communists who are "willing to understand what Communism is" should study the documents of the congress.

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Following this display of Chinese support for the re-affirmation of Soviet ideological leadership, the satellite leaders assembled in Moscow could have few illusions that they would be able to cite Chinese precedents to justify their views on domestic policies. Moreover, the Stalinists in the satellite parties, many of

whom were not in Moscow but nevertheless received the message via bloc media, must have realized that, for the present at least, it would be dangerous to look to Peiping rather than to Moscow for ideological inspiration against their political opponents, especially when these opponents had Moscow's endorsement.

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**THE SOUTH KOREAN ECONOMY**

The South Korean economy in 1958 advanced at a far slower pace than in the previous year and was marred both by a resumption of inflation and a precipitate decline in the rate of increase in gross national product. Several major factors indicate that this situation may worsen in 1959. General concern with short-run problems, however, tends to obscure the broader problem of South Korea's almost complete dependence on foreign aid--it now is receiving one fifth of all American foreign economic grants--and its continuing failure to pave the way for substantial reduction or termination of such aid.

Although agricultural and industrial production has increased, it may soon be overtaken by population growth. The basic objective of the US and UN aid programs--creating a viable economy to maintain the present standard of living--seems beyond Korean resources and capabilities.

**Budget and Fiscal Operations**

The South Korean national budget for 1959 is nominally balanced at \$780,000,000. In reality, there will be at least a \$30,000,000 deficit. In all probability, this shortage will be made up through issuances of currency and will be accompanied by credit expansion, with consequent inflationary results. The resort to monetary expansion, a course the government prefers to improving tax collections or increasing production, is a major cause of financial instability in South Korea and may be even more attractive in the future when domestic revenue will be required to replace aid income.

<b>SOUTH KOREAN BUDGET</b>				
(MILLION DOLLARS AT 500 HWAN PER DOLLAR)				
	MILITARY	OTHER	TOTAL	DEFICIT (AFTER AID)
1952 (WAR YEAR)	147 (44.9%)	180	327	NOT AVAILABLE
1953 (WAR YEAR)	835 (69.1%)	374	1209	NOT AVAILABLE
1956*	213 (33.5%)	392	605	60
1957	225 (34.7%)	323	648	100
1958	255 (31.6%)	552	807	33
1959	281 (36.0%)	499	780	30 (EST)

\* 18-MONTH FISCAL YEAR  
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Military expenditures, which constitute 36 percent of the budget, in effect are financed entirely with funds generated by the domestic sale of aid goods. Customs and foreign-exchange taxes, which provide another 19 percent of revenues, derive primarily from aid imports. Thus, aid finances more than half of the governmental budget.

Inflation

In 1957 the wholesale price level, which had increased to more than 230 times that of 1947, was brought under control temporarily as a result of currency stabilization and the arrival of considerable aid goods. However, the price rise was resumed in the latter half of 1958 and by the end of the year totaled 8.8 percent over the previous year, according to the Seoul wholesale index. Further inflation is expected in 1959.

A cardinal factor in this inflation is the penchant for speculation among South Korean businessmen and financiers, which helps to explain the serious lack of private long-term investment.

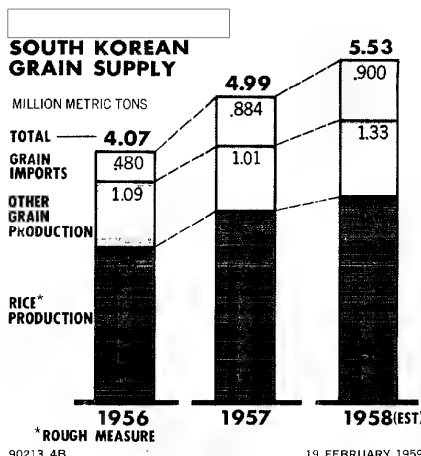
The government's failure to adhere to a program of limiting currency and credit expansion in 1958 was the immediate cause of the renewed price rise. This expansion of money supply, amounting to 32 percent by the end of the year, stemmed from increased bank loans--many of them designed to assist the Liberal party's preparations for the 1960 elections--from doubled wages for government and military personnel, and from rice loans to farmers.

Significantly, prices increased despite bumper grain crops which depressed food prices about 18 percent during the year, but not enough to overcome price increases in other basic consumer commodities.

A survey taken by a major Korean newspaper indicated that the farm population, which constitutes 70 percent of total population, was afflicted not only with generally increased consumer prices, but also failed to meet production costs because of the depressed prices for grain.

Grain Production and Consumption

South Korean grain production--consisting of a barley-wheat-rye crop in early summer and a rice crop in autumn--is increasing and is generally believed to equal or exceed pre-World War II levels. The bumper 1958 rice crop set a postwar record.



However, production is not keeping pace with the population growth. Total population is about 23,000,000 and is increasing at the rate of 2 percent annually. Per capita rice consumption, which in 1958 was 125 kilograms and still above prewar levels, is declining. Agricultural research, with an eye toward combating crop disease and increasing yields, has been virtually ignored by the government, and grain imports, which constitute 20 percent of total consumption, are increasing, with heavy dependence on American surpluses.

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Rice is South Korea's best potential export. During the late stages of the Japanese occupation of Korea, more than 1,000,000 tons were exported annually. In the postwar period, rice shipments from South Korea, the major producing area, have been limited to 90,000 tons to Japan in 1950. A 5,000-ton sale to Okinawa recently was concluded, and South Korean officials finally are contemplating a rice export program which, however, would require the substitution of cheaper grains in the Korean diet.

Fisheries

Marine production is the nation's major source of protein and also frequently is cited for its export potential. Average annual production from catches in South Korean waters during the period 1936-1940 was approximately 630,000 metric tons. Estimated production in 1958 was only 62 percent of this. Postwar consumption per capita is down severely, and marine exports were valued at slightly more than \$2,000,000 in 1958.

There are several reasons for the postwar shortfall. Fishery resources, especially sardines, in Korean coastal waters have been depleted. The Japa-

2 percent of the labor force and contributes only 1 percent of the gross national product, lacks boats, skilled manpower, and processing facilities. It also suffers from a continuing lack of capital investment for rehabilitation. Like agriculture, however, fisheries development has been secondary to industrial development.

Industry

Industrial development, while advancing gradually, has been unbalanced, with the result that some industrial and manufactured products exceed demand, a few meet demand adequately, while most production is unable to keep pace with the market growth.

By the end of September 1958 the general production index had risen 80 percent above the 1955 base. The greatest progress had been achieved in the manufacturing sector, but South Korea's heavy dependence on imported raw materials has not been reduced appreciably.

Textile production, which requires imports averaging \$30,-000,000 annually, exceeds domestic demand but cannot compete price-wise in foreign markets without government subsidy. Tungsten concentrate production is curtailed due to a lack of foreign markets, but sales prospects for 1959 have improved. The supply of anthracite coal exceeds requirements, so that the industry is depressed generally and several mines have been shut down.

Electric power production is not quite adequate to meet present requirements, but construction of additional power facilities is contemplated. South Korea also hopes to become self-sufficient in chemical fertilizers on completion of a three-plant construction program in 1962.

Elsewhere domestic production prospects are much less

**SOUTH KOREAN GROSS NATIONAL PRODUCT**

	GNP (BILLION DOLLARS) <sup>1</sup>	PERCENT OF CHANGE	PER CAPITA GNP (DOLLARS) <sup>2</sup>
1936-39 AVERAGE		---	113
1955	1.89	2.5	88
1956	1.84	2.4	84
1957	2.09	13.4	94
1958 (EST)	2.17	3.7	96

<sup>1</sup> BASED ON 1955 CONSTANT PRICES (500 HWAN=ONE DOLLAR)

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nese, during their withdrawal from Korea in 1945, took with them a major portion of the Korea-based fishing fleet, and refrigerating and canning facilities were destroyed in the Korean war.

The present South Korean fishing industry, which employs

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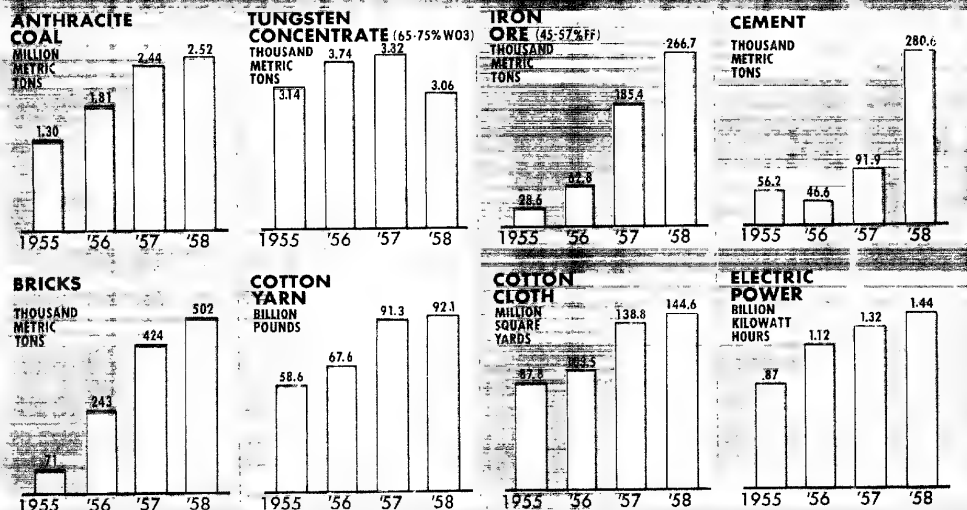
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**SOUTH KOREA: PRODUCTION OF SELECTED NONAGRICULTURAL ITEMS**

BANK OF KOREA FIGURES



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1958 FIGURES ESTIMATED

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bright. Cement production, despite a threefold expansion in 1958, still was 38 percent short of requirements. South Korea imported all of its petroleum products--at a cost of approximately \$18,000,000--its entire consumption of 700,000 tons of bituminous coal, and 20 percent of its food. Virtually all metal and machinery requirements, except some small engines, compressors, and machine parts, must be imported. A much-publicized steel mill, built in 1957 against American advice, has ceased operations because of a lack of operating capital and of processing facilities for the steel ingots which it produced.

A recent survey of 2,757 factories conducted by the South Korean Chamber of Commerce revealed that 35 percent were in full operation, 31 percent had cut back operations, and 34 percent were shut down. Some 2,000,000 persons--more than 20 percent of the labor force--are completely unemployed, while underemployment is widespread.

**Trade**

The gap between South Korea's exports and imports, including aid, has averaged approximately \$375,000,000 annually since 1955. The solution to narrowing this gap is twofold--expanding exports and, through the development of local industry which would convert both domestic and foreign raw materials, reducing the need for imported finished and semi-finished goods.

The gradual reduction of American aid automatically will reduce imports, but the country will continue to require a high level of imports to maintain its industry and present standard of living. South Korea's export potential lies in three principal categories--rice, minerals, and marine products--but the already low level of exports has declined in the last two years.

Efforts to expand rice from the bumper 1958 harvest--at approximately \$150 per ton--failed

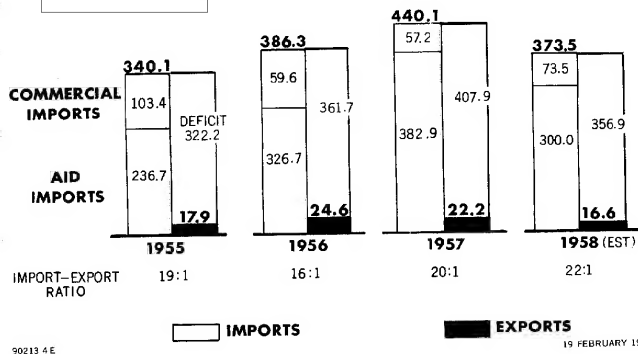
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**SOUTH KOREAN TRADE**

(MILLION DOLLARS AT 500 HWAN PER DOLLAR)



Agency provided additional economic assistance, amounting to \$150,000,000.

Almost two thirds of the American aid grants have been in the form of salable commodities--chemical fertilizers, fuels, raw cotton, and food-stuffs--intended to combat inflation, improve living standards, and generate local currency or counterpart funds for use by the South Korean Government. The remaining one third has been expended on rehabilitation, developmental projects, and technical assistance.

because foreign rice markets have been glutted. However, rice exports in late 1959 and in future years could be sizable depending on market availability and, to a certain extent, on more attractive Korean pricing. Moreover, the official South Korean exchange rate of 500 hwan to the dollar more than doubles its value in the local market and tends to encourage Korean businessmen to import luxury consumer goods for domestic resale at the more advantageous local market rate.

Pending a planned comprehensive mineral survey of South Korea, graphite, tungsten concentrate, and iron ore are the principal mineral exports, but in each case either the supply or the market is limited. Exports of marine products in 1958 were valued at about \$2,000,000, but further expansion depends on increased capital investment and technical competence in this industry.

**Foreign Aid**

American economic aid appropriations from the end of the Korean war through fiscal 1959 have totaled \$1.7 billion, not including more than \$4 billion, in direct military assistance for the South Korean armed forces. The United Nations Korean Reconstruction

The program against inflation, although it has had limited success, is handicapped by the failure of South Korean officials to implement it fully. Living standards, except for housing, have been restored to the 1949-50 level, but the gradual decline in aid and expected drop in per capita production makes deterioration in the standard of living probable.

Foreign aid has rehabilitated and expanded the rail and communications networks, developed nearly adequate power facilities, and significantly expanded anthracite coal production. Chemical fertilizer imports have raised agricultural production, but farmers frequently grumble at the price which

AMERICAN ECONOMIC AID TO SOUTH KOREA (MILLION DOLLARS)				
U.S. FISCAL YEAR	DEFENSE SUPPORT	TECHNICAL COOPERATION	P. L. 480	DEVELOPMENT LOAN FUND
1954	178.8	-	-	-
1955	247.4	-	15.0	-
1956	316.3	4.1	47.7	-
1957	321.9	5.1	18.9	-
1958	237.2	6.3	50.0	-
<b>TOTAL</b>	<b>1,301.6</b>	<b>15.5</b>	<b>131.6</b>	<b>-</b>
<b>GRAND TOTAL - 1,448.7</b>				
1959 (TENTATIVE)	210.0	5.8	49.0	7.1
FIGURES EXCLUDE DIRECT MILITARY AID, U.N. AID, AND CIVILIAN ASSISTANCE RENDERED BY U.N. MILITARY PERSONNEL.				

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often increases 60 percent or more between the port of entry and local delivery and at wide price fluctuations from area to area. In both rural and urban areas, too, there are increasing reports of discontent with the aid program for its alleged creation of a small wealthy class.

Prospects

Despite the industrial development that has taken place, the South Korean economy remains predominantly agricultural. Economic activity involves widespread financial speculation, and the considerable sums of available private capital are utilized for "quick-money" schemes rather than for long-term investment. In one sense, this problem is largely psychological, reflecting general pessimism about the future of the economy and the country.

Prospects for foreign investment in South Korea are poor.

In some instances, industrial projects--as well as fiscal programs--seem too large and too complex for the country's physical, human, and financial resources. Even some small, logically conceived enterprises, designed to reduce the import burden, have failed because private investors were not forthcoming. The extreme shortage of managerial, technical, and labor skills is a serious liability.

The caliber of top Korean economic officials has improved markedly in the last three years, offering hope for at least limited progress in the immediate future. However, the basic handicaps which the country faces cast strong doubt on its ability to maintain the present standard of living over the long run without substantial foreign aid. 25X1

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